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ACTION EUR-12

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-03

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TO SECSTATE WASHDC IMMEDIATE 9295

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DEPT PASS TREASURY FOR SYVRUD

E.O. 11652: N/A

TAGS: EAID, ECON, PO

SUBJ: PORTUGAL'S 1977 CENTRAL GOVERNMENT BUDGET

SUMMARY: GOP SUBMITTED ITS 1977 BUDGET TO THE NATIONAL ASSEMBLY ON NOVEMBER 15 AS SCHEDULED. BUDGET PROJECTS 1977 REVENUES OF 99.3 BILLION ESCUDOS AND EXPENDITURES OF 158.3 BILLION, REPRESENTING A NOMINAL INCREASE OF, RESPECTIVELY, 26.7 PERCENT AND 15.8 PERCENT. IN REAL TERMS, THEREFORE, REVENUES WILL EQUAL OR BE VERY SLIGHTLY ABOVE THOSE OF 1976 WHILE OUTLAYS ARE TO DECLINE APPROXIMATELY 10 PERCENT. EXPENDITURES ON SUBSIDIES ARE EXPECTED TO FALL EVEN MORE RAPIDLY, BUT INVESTMENTS SHOULD VIRTUALLY MAINTAIN THIS
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YEAR'S REAL VALUE. THE DEFICIT, BY REMAINING VERY NEAR

THE 1976 NOMINAL LEVEL, WILL FALL BY SOME 23 PERCENT IN REAL TERMS. DESPITE THIS DECLINE, IT WILL STILL APPROXIMATE 10 PERCENT OF GNP. END SUMMARY.

1. GOP MET ITS OFFICIAL DEADLINE AND SUBMITTED 1977 BUDGET TO THE NATIONAL ASSEMBLY ON NOVEMBER 15. LOCAL PRESS REPORTED SUBMISSION OF BUDGET, BUT PROVIDED FEW DETAILS. MINISTER OF FINANCE SUBSEQUENTLY PRESENTED EMBASSY WITH COPY OF BUDGET. FOLLOWING DESCRIPTION AND TABLE ARE DRAWN FROM THAT COPY.

2. RECEIPTS: THE 1977 BUDGET FORESEES REVENUES RISING FROM 78.4 BILLION ESCUDOS IN 1976 TO 99.3 BILLION IN 1977. THIS PROJECTION REPRESENTS A NOMINAL INCREASE OF 26.7 PERCENT, BUT VIRTUALLY NO OR VERY LITTLE CHANGE IN REAL TERMS. GOP BASES ITS EXPECTATIONS OF A CONTINUED LARGE NOMINAL INCREASE IN REVENUES ON FOLLOWING MAJOR CONSIDERATIONS: RECENTLY INCREASED TAX RATES, PERSISTENTLY HIGH RATE OF INFLATION, STRICTER ENFORCEMENT OF TAX COLLECTIONS, AND A PLANNED EXTENSION OF IMPORT SURCHARGES. ALTHOUGH THE EXPECTED 1977 GROWTH IN REVENUE IS RELATIVELY HIGH, PARTICULARLY SINCE IT FOLLOWS AN EXPECTED 34 PERCENT EXPANSION THIS YEAR, IT MAY PROVE TO BE CONSERVATIVE. THE PROJECTION, FOR EXAMPLE, APPARENTLY MAKES NO ALLOWANCE FOR THE INCREASE IN REVENUES THAT WOULD RESULT FROM A FURTHER ESCUDO DEPRECIATION.

3. EXPENDITURES: TOTAL OUTLAYS ARE EXPECTED TO GROW FROM 136.7 BILLION ESCUDOS IN 1976 TO 158.3 BILLION IN 1977, A NOMINAL RISE OF 15.8 PERCENT BUT PROBABLY A DECLINE OF SOME 10 PERCENT IN REAL TERMS. THE LARGEST PERCENTAGE EXPENDITURE GROWTH IS FOR DEBT SERVICING, A JUMP OF 113.3 PERCENT FROM 8.3 TO 17.7 BILLION ESCUDOS. THIS FACTOR ALONE ACCOUNTS FOR ALMOST 44 PERCENT OF THE TOTAL PROJECTED NOMINAL GROWTH IN EXPENDITURES. TWO OTHER FACTORS ARE WORTH SPECIAL NOTICE. FIRST, THE BUDGET FORESEES A VERY SHARP DROP IN THE REAL VALUES OF SUBSIDIES. DIRECT SUBSIDIES ARE TO REMAIN ALMOST CONSTANT WHILE TRANSFERS, MANY OF WHICH ARE REALLY LIMITED OFFICIAL USE

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INDIRECT SUBSIDIES, ARE TO FALL BY SOME 7 PERCENT IN NOMINAL TERMS. IN ADDITION, OUTLAYS FOR "INCREASES IN CAPITAL," MANY OF WHICH ARE ALSO INDIRECT SUBSIDIES, ARE TO DECLINE BY ALMOST 60 PERCENT IN NOMINAL TERMS. A SECOND ITEM WORTH NOTING IS THAT THE "INVESTMENTS" CATEGORY SHOULD RISE BY SLIGHTLY MORE THAN 22 PERCENT. THUS INVESTMENTS, UNLIKE TOTAL EXPENDITURES, SHOULD ALMOST MAINTAIN THEIR 1976 REAL VALUES.

4. DEFICITS: THE 1977 BUDGET PROJECTS A DEFICIT OF 59 BILLION ESCUDOS, I.E., A NOMINAL INCREASE OF ONLY 1.2 PERCENT FROM THE EXPECTED 1976 LEVEL OF 58.3 BILLION. IN REAL TERMS, THEREFORE, THE DEFICIT SHOULD FALL BY APPROXIMATELY 23 PERCENT. THIS EXPECTATION RESULTS LARGELY FROM THE GOVERNMENT'S INTENTION TO ELIMINATE THE HEAVY DEFICITS OF THE SOCIAL SECURITY SYSTEM AND THE AUTONOMOUS FUNDS. THROUGH A COMBINATION OF INCREASED TAXES AND REDUCED BENEFITS, GOP PLANS TO BALANCE THE SOCIAL SECURITY ACCOUNTS AND TO PRODUCE A SURPLUS OF 7.5 BILLION ESCUDOS IN THE AUTONOMOUS FUNDS.

5. FOLLOWING TABLE PRESENTS REVISED 1976 BUDGETARY EXPECTATIONS AND THE 1977 BUDGET PRESENTATION.

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DEPT PASS TREASURY FOR SYVRUD

"PORTUGAL'S 1977 CENTRAL GOVERNMENT BUDGET 1/"
(BILLIONS OF ESCUDOS) 2/

	1976	1977	PERCENTAGE CHANGE	
I. RECEIPTS	78.4	99.3	26.7	
1. DIRECT TAXES 3/	20.0	24.4	22.0	
2. INDIRECT TAXES	44.2	53.7	21.5	
3. CAPITAL RECEIPTS	3.6	99.3	158.3	
4. EARMARKED REVENUES	4.4	4.2	-4.5	
5. OTHERS	6.2	7.7	24.2	
II. EXPENDITURES	136.7	158.3	15.8	
1. CURRENT EXPENDITURES	97.4	111.3	14.3	

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A. GOODS AND SERVICES 3/	(58.8)	(69.0)	(17.4)
B. SUBSIDIES	(4.9)	(5.0)	(2.0)
C. TRANSFERS	(27.9)	(25.9)	(-7.2)
D. INTEREST ON PUBLIC DEBT	(5.7)	(11.5)	(101.8)
2. CAPITAL OUTLAYS	32.3	36.6	13.3
A. INVESTMENT	(20.6)	(25.2)	(22.3)
B. INCREASE IN CAPITAL OF STATE COMPANIES	(7.9)	(3.2)	(-59.5)
C. OTHERS	(3.8)	(8.2)	(115.8)
3. AMORTIZATION OF DEBT	2.6	6.2	138.5
4. EARMARKED EXPENDITURES	4.4	4.2	-4.5
III. DEFICIT	58.3	59.0	1.2
IV. PROJECTED GNP	455.0	573.0	25.9
V. BUDGET DIFICIT/ PROJECTED GNP	12.8	10.3	

1/ TOTALS DO NOT ALWAYS ADD DUE TO ROUNDING.

2/ CURRENT EXCHANGE RATE IS US\$1 EQUALS 31.315 ESCUDOS.

3/ DOES NOT INCLUDE SOCIAL SECURITY TAXES AND OUTLAYS
PROJECTED AT 51.5 BILLION ESCUDOS.

6. COMMENT: THE 1977 BUDGET REPRESENTS A SIGNIFICANT
EFFORT BOTH TO REDUCE THE LEVEL OF REAL EXPENDITURES AND
TO ADJUST THEIR COMPOSITION IN ORDER TO FAVOR INVESTMENTS.
HOLDING THE LINE ON EXPENDITURES WILL BE DIFFICULT, ES-
PECIALLY AS THE RATE OF INFLATION ACCELERATES. EVEN IF
GOP DOES HOLD THE LINE, THE DEFICIT, WHICH WOULD EQUAL
SOME 10 PERCENT OF GNP, INDICATES THE BASIC DISEQUILIBRIUM
THAT CHARACTERIZES THE ECONOMY.
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